[redacted] 25X1

29 July 1986

Talking Points for ADDI

Mexico: Implications of the IMF Agreement

The IMF agreement signed last week provides Mexico with $1.5 billion over the next 18 months and contains a provision to protect the country from future oil price declines. $ 1.5 b IMF

We believe that the accord sets a precedent and will lead other countries seeking IMF agreements to demand equally favorable terms.

--The economic ~~performance targets~~ embodied in the agreement are very lenient. For example, Mexico is to reduce its budget deficit as a share of GDP from 16 percent this year to 10 percent next year. Until recently, the Fund had been pressing for a figure of 5 to 6 percent this year. targets easy

--The agreement recognizes the need for economic growth in Mexico and even promises to pump in additional funding if economic activity does not rebound sufficiently by the second quarter of next year. Growth

[redacted] 25X1

Tough Talks with Banks Lie Ahead

As part of an overall $12 billion new money package over the next 18 months, Mexico has told bankers it will ask them for $6 billion in net new money--$3.5 billion this year and $2.5 billion in 1987. Mexican negotiators also have hinted that they will push for some concessions on interest payments. $ 12 b. new $

--Although most banks believe Mexico's request overstates the country's true needs, [redacted] new lending will be forthcoming even though the final package could come in below the $6 billion level. ba 25X1 = $ 6 b

--Even so, negotiations--tentatively scheduled to begin 11 August--will be long and arduous. Protests from smaller regional and European banks probably will prolong negotiations, but eventually most will fall in line. Those opting out will not carry enough weight to jeopardize the loan package.

--In the meantime, a contingency loan package to be established by creditors and governments probably will prevent any type of default. 11 Aug negoti.

--Most banks are resigned to the fact that they will be pressured to meet Mexico's request, even though they doubt that the IMF agreement will foster reform.

[redacted] 25X1

25X1

Over the longer term, new bank lending combined with the lenient agreement and funding from the IMF and a $1.9 billion commitment from the World bank, probably will allow de la Madrid to cope with Mexico's economic problems until the end of his term.

de la Madrid Ok.

25X1

Mexico: Sources of External Financing 1986-87

(Billions of Dollars)

Source	
Commercial Banks	6.0
IMF	1.5
World Bank	1.9
Japanese Commitment	1.0
Other	1.6
Total	12.0